Approved
Government Decision nr. dated 20 X. 2006

State Tax Service Strategy of development for the years 2006-2010

A.

Preamble

The State Tax Service opts to pass from a culture based on activity analysis and results reporting to a culture of performance evaluation based on analysis of realization of established goals in order to ensure the improvement of existent situation, a better quality and efficiency of activities.

The realization of tasks stated above imposes the necessity to initiate a complex of measures, a special strategic plan that will comprise the development of all the elements of fiscal system, including: legal framework, culture of fiscal relationship, utilization of technological processes, technical and material supplying of the State Tax Service etc etc. These components are interdependent. Changing one element without respective improvement of the others will not be successful. Development of an effective system of fiscal administration, based on central methodological and scientific structure, on territorial specialized in workable structures, on contemporary informational technologies – will allow realizing the attributions of the fiscal body at a higher level. The realization of measures foreseen by present strategy will contribute to the realization of fiscal system's mission, to the systematization and predictability of fiscal body's actions, improvement of investment climate, and counteracting tax evasion.

At the same time, improvement of fiscal administration procedures will have positive impact on elimination of causes that encourage professional ethic infringements.

The State Tax Service Strategic Plan is elaborated accordingly to the previsions of current reforms realized in the Republic of Moldova and in order to sustain the realization of the Middle Terms Expenditures Framework for the years 2007 - 2010. It fully meets the strategic orientation recommended by the International Monetary Fund regarding the development of a modern tax administration.

II. MESSAGE FROM THE MANAGER OF THE MAIN STATE TAX INSPECTORATE

I am pleased to present the Strategic Plan for development of the State Tax Service of the Republic of Moldova for 2006-2010.

The State Tax Service seeks to move from a culture of activity analysis based on result reporting to a culture of performance evaluation based on analysis of fulfillment of the established objectives to ensure the improvement of the existing status, and the improvement of the quality and performance of activities.

Achieving the above mentioned tasks requires initiation of measures, a special strategic plan that includes the improvement of all elements of the tax system: the legal framework, culture of taxation, use of technological processes, technical and financial insurance of the State Tax Service, etc. These components are interrelated and closely connected. Any change of some of them, without the improvement of the others, will not be successful. Creating an effective system of fiscal administration, based on a central methodological and scientific unit, territorial structures specialized for income producing purposes, contemporary information technologies – will allow the fulfillment of the tasks of the tax body at a much higher level. The achievement of the measures of this plan will contribute to the achievement of the tax system mission, to systemizing and making predictable the actions of the tax body, to the improvement of the investment climate as well as decreasing of tax evasion.

The improvement of the tax administration procedures will have a positive impact on the elimination of the causes that favor the violation of professional ethics.

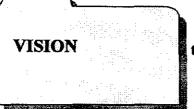
The Strategic Plan of the State Tax Service was established in accordance with the provisions of the deep ongoing reforms that are taking place in the Republic of Moldova and supports the achievement of the Medium-Term Expenses Framework for 2007 – 2010. This matches the strategic orientations recommended by the IMF regarding the establishment of a modern tax administration.

Sergiu Puşcuța MSTI Manager

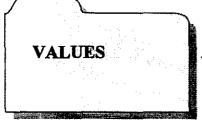
I. MISSION, VISION, AND VALUES



The efficient collection of budget income for which it is responsible and providing the required environment for unified application of tax legislation and reduction of taxpayer costs.



Establishing an efficient computerized tax administration that is easily adaptable to the development of the society.



The activity of the State Tax Service focuses on the following values:

Transparency

Based on the citizens' right to information in accordance with the Constitution of the Republic of Moldova, the State Tax Service should consistently apply the transparency principle in relations with taxpayers, ensuring at the same time, confidentiality of personal information.

Equal treatment

The State Tax Service provides equal treatment of all taxpayers without discrimination by complying with objectivity, fairness and legality principles.

Social responsibility

Maintaining ethical standards in relation to the civil society, developing partnerships with taxpayers.

Professionalism and performance

Professional development of employees, the development of team spirit and flexibility in all activities.

Quality and timeliness

Evaluation of performance based on the highest international standards.

II. STATE TAX SERVICE - development, problems, opportunities

History

Through Decision of the Council of Ministers of the Moldovan Soviet Socialist Republic No. 68 of March 7, 1990, for the first time in the history of the Republic of Moldova, state tax inspectorates were created in the system of the Ministry of Finance as follows:

- The State Tax Inspectorate of the Ministry of Finance, as a structural subdivision of the ministry;
- Territorial state tax inspectorates that were independent and were subordinated administratively to the State Tax Inspectorate of the Ministry of Finance.

For the first time, the State Tax Service, as a single system of tax institutions, was established through Law No. 876-XII of January 22, 1992 "On the State Tax Service". In accordance with Title V of the Fiscal Code, this system includes the Main State Tax Inspectorate of the Ministry of Finance and the territorial state tax inspectorates subordinated to the Main State Tax Inspectorate, all of them being corporate entities and financed by the state budget.

The State Tax Service bodies are in charge of tax administration, which is their basic task, and their activity is regulated by the tax legislation. In addition, unlike other countries, the STS is usually also in charge of local tax administration that require significant efforts.

In order to fulfill this task, the tax bodies handle a wide range of tax procedures as follows:

- Individual records of taxpayers and Tax Register management;
- Individual records of all tax liabilities calculated, paid and outstanding;
- Reimbursement of additional amounts paid and of those stipulated for reimbursement in accordance with the law;
- Providing services to taxpayers by distributing forms, providing counseling, processing declarations and other data and information;
 - popularizing tax legislation;
 - conducting tax audits:

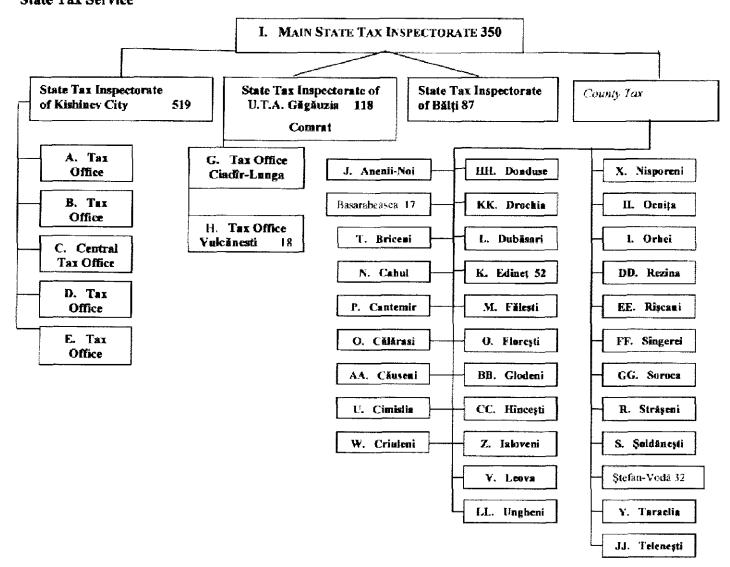
- implementing measures for the assurance of tax liability termination including tax enforcement;
 - issuing excise stamps;
 - issuing tax bills;
 - managing cash registers, etc.

In addition to tax administration tasks, the tax bodies have a series of functions stipulated by other legal documents. These are some of the most important and difficult:

- managing Social Security contributions (audit, enforcement);
- managing mandatory healthcare insurance premiums (records, audit, enforcement);
- collecting by coercion credit granted by the government or under government guarantee;
- collecting dividends associated with the government share in the registered capital of incorporated companies and other income for the national public budget;
- management, evaluation and sale of confiscated property, without any owner, which are transferred to state property;
- keeping a register of receipts of treasury debts of the Ministry of Finance:
 - grants for agriculture;
 - foreign currency repatriation;
 - managing taxes for the revitalization of grape production;
- effective October 11, 2006, MSTI will take over the management functions of the Creditor Council.

Organization and structure of the State Tax Service

The organizational structure of STS is presented in the diagram below.



The current structure of tax administration provides the fulfillment of the basic functions of the Service in all 35 administrative and territorial units. The structure of a territorial unit is based on the **principle of functional division:**

- tax administration;
- tax audit;
- payment monitoring;
- individual taxation.

One of the STS achievements has been the need for activity segmentation by establishing the Information Processing and MTMB Branch.

The functional structure provides potential benefits to taxpayers and facilitates the tax management process. Although the organization and functional structure of STS is in compliance with the best management practices, there is still room for improvement. Some of the disadvantages of the current structure of MSTI are as follows:

- lack of a unit responsible for serving taxpayers (providing services and establishing tax procedures);
 - lack of subdivision for strategic planning;
- double functions fulfilled by the MSTI subdivisions (reviewing claims, applications, checking the activity of territorial STI, payment analysis);
- a wide range of responsibilities for the MSTI deputy managers.

As the territorial STI are directly subordinated to MSTI, the personnel that normally should be involved in the establishment of policies and problems of strategic management do not fulfill their obligations because they are involved in operational issues, providing support and monitoring the operations of the territorial services. In addition, the coordination of the territorial IFS operations is complex, and the communication process is difficult due to the large number of

territorial STI reported by the Republic of Moldova.

As a result, it is necessary for the STS structure to be overhauled in order to provide better coordination and communication between associated activities, the development of higher specialization, the improvement of regional support, and to reduce the report flow.

Taking into account that one of the main tasks of STS is providing full and timely collection of tax payments, the evaluation criteria of its activities are the level of fulfillment of the collection task and the level of backlog reduction. However, there are no performance indicators or an evaluation system of the activity that would assess the efficiency of the activities as compared with the results of activities of other tax services.

STS does not have appropriate offices and equipment that allow the carrying out of efficient operations. Out of 40 territorial subdivisions of STS, only 20 have their own offices. Not even MSTI has its own office.

The inappropriate location of some offices, limited area, and lack of resources for repairs and maintenance of the facilities do not provide a good work environment and does not lead to modern management.

Human Resources

At the beginning of 2006, the Tax Service had 2,248 employees. The turnover of the STS employees is on an average 10 percent. There are 2,053 qualified specialists in AF. The number of specialists with higher education, constituting 60 percent, indicates a team of professional and highly qualified clerks.

The statistical data regarding the personnel structure by age demonstrates a decline of the number of employees up to 40 years of age that decreased over the last two years by 192. This trend has a negative impact on the future of STS. The number of qualified specialists over 40 years of age accounts for 60 percent.

The professional training of the employees is organized on a regular basis, annually providing training to 15 percent of employees. In addition, no modern methods of study are implemented in the professional training process. Training in the use of software programs is limited in time and does not have an evaluation system of training results.

The existing employee motivation system does not fully comply with human resources policy management, including in terms of stimulating compensation of performance and non-financial stimulation. Taking into account the rapid IT development, the new developmental stage of the Republic of Moldova on the background of a global integration trend, the new tax procedures used by the tax administration, the development of international economic relations by economic agents, the Tax Service must address the problem of training specialists, the continuous updating of knowledge at increasingly higher levels, and the specialization of the tax clerks.

The objectives of the tax service to provide modern tax administration requires the initiation of qualitative and quantitative changes of the human resources.

Major Taxpayers Management Branch

The MTMB, employing 65 associates, currently manages 355 taxpayers and contributes to the collection of 40 percent of all taxes and fees administered by STS. This Branch is fully responsible for the management of major taxpayers, including providing services to taxpayers, enforcement of fiscal liabilities and conducting tax audits. The work methods and procedures are established by MSTI and are used in the entire system of the Tax Service. The equipment and work conditions provided to MTMB are better than other structural units of STS. However, the level of a modern MTMB has not been reached, including the provision of laptops and a properly equipped advisory office.

The range of services provided to taxpayers by MTMB includes counseling regarding the provisions of the Fiscal Code, the issuance of certificates, and reviewing applications and claims. Taking into account the complexity of the issues involving the major taxpayers, specialists from other subdivisions of MSTI participate in counseling because currently there is no subdivision specialized in counseling.

The services provided by MTMB are essentially the same as the services provided to other categories of taxpayers. As there is no system of evaluation of the quality of services provided, the degree of satisfaction of the needs of this category of taxpayers cannot be estimated.

The activity of major taxpayers is subject to tax audit once every two years on an average. The personnel of the audit branch do not have specialized programs and performing software that allow a connection to data of financial institutions, accounting programs used by taxpayers, or other state institutions.

Although the methods and procedures of MTMB have developed continuously, there is no specialization by branches of the national economy. The information provided will be considered reserves in relation to the international standards of a modern MTMB.

Tax procedures

The main components of tax administration are as follows: taxpayer records, recognizing and assessing the income obtained by individuals and companies, and collecting taxes and fees due to the treasury. In order to carry out these activities, based on the existing legal provisions, a series of instruments, used to provide efficient administration of taxpayers and to facilitate the fulfillment of their tax liabilities, have been applied. To this purpose a register of taxpayer records and a system of payment records are used based on which audits are performed. Currently, STS manages taxable subjects:

- companies 73,633, including companies with foreign investments 2,262, individuals (sole proprietors and farms) 569,925;
 - individuals, real estate taxpayers 1,247,000.

In 2005, the number of economic agents increased by 8.8 percent as compared with 2004. The dynamics of payment accumulation in the budget at all levels (state budget, budgets of administrative and territorial units, budget of social security, the Fund of health care mandatory insurance) increases, accounting over the last years for 15 – 22 percent.

Currently, there are 120 types of tax reports presented by taxpayers more or less on a regular basis (monthly, quarterly, annually).

The receipt of declarations is optimized in order not to waste the taxpayer's time (on an average, a declaration receipt lasts 5 - 10 minutes). Currently, the tax returns are presented only on paper because there is no appropriate software that allows the electronic submission of the returns. The electronic submission would cut the taxpayers' costs for returns submission and would optimize their processing.

The large number of tax returns, the frequency of their submission, the small amounts of tax liabilities reflected by some categories of taxpayers, the method of completion (in some cases) require a review of the entire process of tax return submission.

STS focuses on providing a wider range of quality services to taxpayers. A significant service provided by STS is counseling and

information support for taxpayers for better knowledge of their rights and obligations. As a result, counseling offices of STS have been established and an official web site has been published.

The increase in taxpayers' requests and complicated economic and financial operations as well as the increase in the number of foreign companies require a new approach of service quality. A new approach of the types and quality of services provided is also required by the diversity of the fields of activity. Currently, it is obvious that a segmenting of services by category of taxpayers is required, which is used in international tax administrations (students, soldiers, and employees, small, large, and medium-sized companies). This prevents STS from being closer to taxpayers and providing support for all categories of taxpayers.

STS works together with public institutions, civil society and entrepreneurs, which helps in achieving its goals, monitoring public opinion regarding tax policies, tax programs and procedures. In addition, STS lacks a system of evaluation of taxpayers' degree of satisfaction with the provided services. This aspect becomes very important on the background of the globalization of business operations.

The main task of STS is ensuring voluntary payment of taxes by taxpayers. Irrespective of the services provided by STS, there is a category of taxpayers that do not declare and do not pay their taxes. The efforts made for the collection of tax revenue are successful; however, the impressive number of debtors requires a review of the practices that are currently used. Currently, there is no system that provides monitoring of actions of enforcement of tax liabilities and there are no evaluation procedures, classification of debtors in groups by risk factors that would allow a concentration of efforts on higher risk arrears.

STS has an information system that provides a record of tax revenue, however, this system does not allow a determination of arrears age and, as a result, the efforts of STS are less efficient.

The tax audit has an important role in the tax procedures. The audit does not focus on the idea of "what must be found", but on "what must be checked". This means that if the audit detects that the selection was not efficient (the tax evasion ratios do not match), it would be necessary to stop the audit and "go" where there are tax evasions.

As a result, not only the entire audit "mechanism" should be

reviewed but also the vision of other audit bodies on this issue.

In particular, a "daily efficiency of audit" should be implemented in the tax practice that would show what days of audit were the most efficient, taking into account the tax evasions detected.

In addition, the selection for audit should be made based on a vector of "arithmetical" errors instead of a "relation" vector. For example:

- The amount of taxes paid based on the transaction volume;
- Sales compared with financial means liquidity;
- The "psychological" factor (age of manager; other companies established in his/her name; so that the financial means flow is kept inside the company, to adjust payments to the budget).

In order to make this analysis, a wide range of information that STS does not currently have, should be available (information from banks regarding bank circulation; information associated with import/export operations; information regarding sale and purchase transactions).

Information Technologies

Efficient implementation of the tax regulations based on harmonized legislation and new working methods is directly related to the availability of adequate specific support information systems.

As a result, the mission of the information technology system is to establish, develop and implement a modern information system in this field that supports the State Tax Service in achieving its goals.

The support function represented by the information technologies is provided by the Information Technologies Branch that has 23 employees. This Branch has the following functions:

- Proposes and implements annual planning for the development of information technologies;
- Makes proposals for investments in the Information Technologies field and provides the required technical documents for acquisitions;
- Develops a unique and integrated information system;
- Implements and supports the software applications running at

central and territorial level:

 Manages local computer networks at central and territorial level that operates approximately 1,000 personal computers and 740 printers;

- Provides counseling and training to tax associates in the use of the Tax Service Information System;
- Represents the State Tax Service in its relations with the manufacturer in specific Information Technology issues.

There is an employee in each region who is the administrator of the Information System.

By implementing the appropriate software applications, the Tax Service Information System currently covers most of the basic functions of the Tax Service on a smaller or larger scale. Software applications are developed at central level and are implemented at all levels. These applications run at central level based on the data available and at regional level based on the data available. Databases of tax returns are created at central level and are provided to territorial offices. At territorial level, the database is complemented by information on taxpayer registration, registration as VAT and excise tax payers, patent owners, cash registers, provisions for placing a hold on bank accounts, collection of payments orders, and other information that is transferred to central level.

A significant development direction of the Tax Service Information System is the Internet-based technologies – that is, creating tools for on-line centralization and processing of the information in the central database from anywhere in compliance with access rights. The database will gradually have a centralized architecture so that the answer to questions about a taxpayer can be obtained in real time. Rapid and efficient implementation of these technologies requires the procurement and use of standard methodologies and tools in this field.

Another development direction of information technologies is the restructuring of the telecommunication architecture with the territorial tax authorities through the Center for special telecommunications.

The Tax Service Information System is continuously changing in order to provide optimal coverage of the functions of the State Tax Service.

In order to develop the Information System and to update it continuously, annual financial subsidies are required for the procurement of software tools of information system analysis and management, platforms that provide tools of administration, configuration, and secure distribution of reports. Due to insufficient human resources, the development of The Information System is slow, because all forces are mobilized in the fulfillment of current projects. Taking into consideration the non-competitive level of the programmer wages in the Tax Service, it is necessary to change the destination of the Information Technology Branch and to divide the functions in two directions:

- Administration and operation of information system (irrespective of its complexity), management of computer networks.
- Designing the development changes of the information system in accordance with the needs and requirements of the Tax Service.

The software must be developed by third party companies that are specialized in this field.

The State Tax Service needs a team of experienced and highly qualified professionals to maintain and develop the system. This team can be built over a few years. Taking into consideration the rapid development of information technologies, professional training of the employees of the Information Technologies Branch is required in specialized training centers.

In addition, its future development requires the establishment of a strategic plan, alignment with the experience of other countries of the European Union, development of electronic communications with taxpayers, upgrading of information exchange with other central and local public administration authorities by developing web services, information security standards and procedures, strengthening the role of the Information Technology in the State Tax Service, upgrading the applications based on obsolete technologies and their upgrading to Internet-based technologies, investments and upgrading of technical equipment in relation with the technological advance and with the performance requirements of the information system.

III. DEVELOPMENT STRATEGIES OF THE STATE TAXATION SERVICE

Functional and structural consolidation

The State Tax Service – a consolidated institution that is able to fulfill its mission on the background of the changes that take place in society.

Human resources

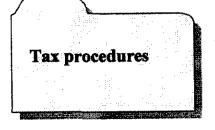
Developing human resources management able to provide adequate personnel to the institution in terms of quality and quantity that will raise the standards of the State Tax Service and reach excellence in its actions.

Taxpayers

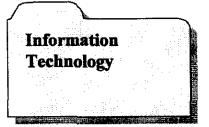
Effectively serving the taxpayers, providing a wide range of high quality services, professional support and a respectful attitude of the tax administration.

DACM

Accomplished branch that is able to provide quality support to major taxpayers.



Redesigning and redirecting tax processes to ensure their efficiency, consolidating goals



Provides efficient and flexible support for all tax administration system functions in carrying out its activities.

STRATEGY
FUNCTIONAL AND
STRUCTURAL
CONSOLIDATION

Strategy Objectives

Improving STS structure by creating new specialized subdivisions

We will maintain the trend for improvement of the functional structure and higher standardizing of the work process. We will obtain a more efficient coordination of activities by clearly identifying their responsibilities and excluding double responsibilities by grouping subdivisions in accordance with their responsibilities and the decision-making process in order to provide support of basic functions of territorial offices. Reviewing the number of territorial IFS based on transparent and unique criteria.

Deadline - 2007

Establishing and implementing a performance evaluation system

A performance evaluation system will be established that will include all the fields of activity of STS, which would improve the quality and efficiency of activities established as objectives by the tax administration. We will also involve in the performance evaluation process representatives of the civil society.

Deadline - 2008

Providing offices, equipment and tools

We will ensure a functional infrastructure, providing means of transportation, new offices and performing major overhaul and ongoing repairs. We will equip each employee with the necessary technology acquiring and upgrading the technical equipment, computers and printers.

Deadline - 2010

Performance evaluation criteria

Evaluation of STS activity

- Estimating the degree of achievement of the objectives established in accordance with the performance criteria.

Information regarding the provision of offices, equipment and tools - The general level of provision of STS with offices, equipment and tools

STRATEGY HUMAN RESOURCES

Strategy Objectives

Creating a structural unit that will handle the establishment and promotion of policies and strategies in the field of human resources management

STS intends to include in its structure a subdivision that will continuously handle the establishment and promotion of policies and strategies in the field of human resources management.

Deadline - 2007

Establishing and implementing the development strategy of human resources management

The development of STS human resources will be performed by applying a structured human resources strategy. People are the key factor for work performance. Serving the taxpayers relies on the efficiency of tax employees and our investment in their development. The establishment and implementation of the strategy will include the analysis of the required personnel for the fulfillment of STS responsibilities and strategic objectives as well as recruiting and selecting the personnel in a transparent manner and based on competency criteria in according with the specificity of

each activity. We will provide employment based on contract and employee rotation in order to ensure professional development and knowledge of tax legislation. The responsibilities and objectives of STS human resources strategy STS can be fully accomplished in a timely manner and at high quality level only using human resources that are well organized and professional, motivated and properly equipped.

Deadline - 2007

Continuously improving and specializing the personnel based on programs established to this purpose

The STS performance is determined first by the skills and competency of the employees and their work. STS will develop professional training for the entire personnel. As a result, the STS management will focus both on the initial training of the new employees and the continuous training, based on training programs. We will evaluate alternatives to personnel training and will establish and implement changes to eliminate skills deficiencies. STS will adopt an electronic training program based on needs, demand and educational environment in order to maintain full work capacity without affecting the level and quality of services. We will focus our training process on the study of economic trends by organizing specialized seminars based on the study of practices and trends in the sectors of national economy. The STS intends to create a center for professional training in the future.

Deadline - 2007-2010

Establishing a performance evaluation and personnel motivation system

The evaluation process will identify the level of professional development of the employees. For accurate evaluation of the personnel, aiming at maximizing the performance of each employee, various techniques will be used that were selected according to job specificity. The evaluation will provide the following benefits:

- real determination of employee training needs:
- identification of motivating factors for each employee;
- reducing the risk of making wrong decisions;

- eliminating subjectivism in performance assessment;
- reducing personnel fluctuation due to job incompatibility.

Deadline - 2008

Performance evaluation criteria

Level of human resources availability

- the level of STS human resources availability, both in terms of quality and quantity, for the fulfillment of the basic mission

Level of trust

- increasing public trust in the STS personnel by appreciating professionalism and ethics.

Indicator of employee satisfaction estimation

- indicator showing the employee opinion regarding the performance management system, an indicator based on the answers provided by employees.

STRATEGY TAXPAYERS

Strategy Objectives

Improving the service options of the taxpayers

STS will continue to improve the quality and efficiency of the provided services through a series of initiatives established in order to expand the coverage area of the services for taxpayer and to implement new and improved work methods. We will expand our partnership relations and will establish new relations in order to expand the education process, support for tax preparation for increased conformity of taxpayers. We will often consult the civil society on the administration process by establishing an Advisory Council. We will establish an active communication program by publishing articles, brochures, by broadcasting radio and TV shows and by expanding the number of channels in order to distribute our information. Our personnel will be responsible for helping the taxpayers so that they understand and comply with the provisions of the Fiscal Code.

Deadline - 2007-2010

Expanding the range of services provided

We will provide special products and services to facilitate the taxpayers' obligations, reducing the taxpayers' costs related to tax payment. STS will provide the taxpayers the opportunity to submit electronic tax returns. We will provide computing support by phone (call center) and interactive electronic tools. We will monitor the customer service through registers in order to increase the STS capacity of providing accurate answers to taxpayers, timely correction of errors and identification of trends for future improvement.

Deadline - 2008-2010

Simplifying tax procedures

We will simplify the tax forms and we will adapt them to a computerized system. The current returns system will be simplified and upgraded to ensure a single standard of completing electronic tax returns. This will allow to those who send tax returns to submit many types of tax reports for a single transmission. We will develop and implement improved tools for the efficient and accurate delivery of notifications and letters.

Deadline - 2008-2010

Performance evaluation criteria

Information on taxpayer satisfaction

- general level of taxpayer satisfaction with the basic services provided by STS.

Cutting costs

- evaluating the time and financial expenses incurred to taxpayers by paying their taxes.

Electronic interactions rate

- evaluating the completion and submission of electronic tax returns.

STRATEGY MTMB

Strategy Objectives

Consolidating the organizational structure of MTMB by creating specialized subdivisions

We will create a subdivision specialized in legal assistance and counseling, a subdivision for risk analysis and audit planning. The activity of the branch will be increased by conducting research, by analyzing what would improve the MTMB performance. Performance criteria and systems of evaluation of MTMB quality will be established and implemented.

Deadline - 2007

Training and specializing the MTMB personnel based on special training programs

Because MTMB is created to pay special attention to the most significant taxpayers in the commercial or industrial, we will implement specialization by industry in the MTMB subunits and we will establish special training programs for the MTMB personnel.

<u>Deadline - 2008-2010</u>

Implementing new methods and procedures of initiation and conduct of tax audit

Creating an information system with systematization of data regarding financial and tax discipline (tax history). This will allow MTMB to direct its review resources on those who develop improperly and taxpayers who do not comply with tax legislations.

Deadline - 2008-2010

Establishing and implementing a strategy of providing services to major taxpavers

The strategy will be established in accordance with the strategic objectives established for the entire tax administration including the periodic review of the MTMB goals and intentions based on the commercial environment and changes in legislation. We will provide high quality services to taxpayers helping them understand and fulfill their tax liabilities by applying tax legislation integrally, impartially and

fairly to all. We will optimize the management of VAT reimbursement in MTMB and will establish specific criteria for tax collection from major taxpayers.

Deadline - 2008

Performance evaluation criteria

Information on taxpayer satisfaction

- general level of taxpayer satisfaction with the basic services provided by MTMB

Personnel training

- number of employees trained

Duration of an audit

- estimating the time used to conduct an audit, including

VAT reimbursement

Level of conformity

 the rate of taxes paid based on the amount of tax liabilities

STRATEGY TAX PROCEDURES

Strategy Objectives

Implementing a computerized record system of STS actions

We will provide an electronic monitoring system of the work load in the field of tax audits in all territorial offices. We will establish and implement an electronic program for the record of enforcement actions and management of confiscated property, without an owner, seized, easily alterable,

Deadline - 2008

Tax procedure efficiency by widely using information products

We will establish tools and technologies that will allow our employees to be more effective at work to make sure that STS will fulfill its mission. We will also make sure that the technologies reduce the load work so that the employee uses its work time to achieve the basic goals. We will use audit support programs based on information technology that will help the tax auditors check the computerized accounting systems on site and manage the reports and work documents, as well as detect at an early stage the economic agents that tend to become delinquent companies ("phantoms"). We will use a record system of objects and subjects that are subject to real estate taxes (Tax Land Register).

Deadline - 2009

Implementing new methods and procedures of initiation and conduct of tax audit

We will establish audit procedures and performance standards that would improve the audit performance based on analysis, logics and material evidence, developing indirect methods of evaluation of tax liabilities. A structural subdivision for the prevention of tax evasion and relations with legal authorities will be created. A laboratory will be created to perform the software check, a standard of cash registers with tax memory. The range of risks used in the system of selection of taxpayers for audit will be expanded.

Deadline - 2009

Developing procedures of challenging the STS actions and settling litigations

We will organize and manage the settlement of tax litigations out of court through alternate procedures (tax mediation) that will save time and will provide simplified procedures of litigation review. We will promote alternate methods of litigation settlement by ensuring law supremacy. We will respect the principle of separation of power branches and their cooperation in a strictly constitutional and legal environment. We will improve the legal environment in accordance with the requirements of international law and we will ensure the transparency of public institutions as well as access to information and promotion of ethical standards.

Establishing new procedures of tax liabilities enforcement

We will apply new information technology to keep a record of the debt payment capacities of taxpayers by grouping them based on the risk criteria established for this purpose. We will conduct enforcement actions by treating taxpayers differently, focusing on high-risk debtors. We will establish an information system that will allow the distinction of debt categories that cannot be subject to enforcement and a history of arrears which will allow us to accurately estimate the level of taxpayer conformity. We will focus our activities on those who will have a positive impact, we will reduce work shortcomings.

Deadline - 2008

Performance evaluation criteria

Computerizing the STS actions record

- level of computerizing of STS actions record

Level of conformity

- payment rate of tax liabilities by taxpayers

Audit duration

estimating the time used for an audit, including VAT reimbursement

STRATEGY INFORMATION TECHNOLOGY

Strategy Objectives

Establishing a development strategy of information technology at the State Tax Service

The objective of this document is the establishment of a specific strategy based on a general mission and a specific mission by 2010. The main user of this document will be the State Tax Service. This document intends to substantiate and direct the real actions that will contribute in the development of Information Technology in the State Tax Service.

Deadline - 2007

Developing a communication network

Developing a communication network that will provide remote access to STS clerks and other authorized users to the central database based on strictly managed access rights. Developing and implementing standards and procedures of security and information confidentiality in accordance with the regulations in the field and in the Republic of Moldova.

Deadline - 2007-2009

Upgrading technical equipment

Upgrading technical equipment based on technological benefits and performance requirements of the information system and of the achievement of its strategic objectives.

Deadline - 2007-2010

Developing electronic communication

Developing taxpayers support methods by using Internet-based information technology. Providing taxpayers with applications and information on completing and transmitting by Internet tax returns, providing them information on tax status.

Intensifying electronic communication with subordinated territorial units.

Developing electronic communications by implementing operational interfaces with other central and local public administration authorities, the bank system and other subjects regarding the electronic data exchange using Internet-based information technology.

Deadline - 2007-2010

Developing an information system

Developing an information system that provides support to all the activities of the State Tax Service, including the audit activities based on risk factors.

Designing the architecture of the information system in order to create a centralized database for all information. Upgrading and developing existing applications. Upgrading to Internet-based technologies with a centralized database as information source.

Acquiring software tools of analysis and management of information systems, platforms that provide tools of management, configuration, secure returns distribution.

Developing and implementing recovery standards and procedures in the event of a disaster.

Deadline - 2007-2010

Modifying the destination of Information Technology Branch

Directing the functions of the Information Technology Branch towards specifying the development and implementation requirements of new components of STS Information System, upgrading existing procedures, coordinating development projects, managing and operating the information system, managing computer networks.

Contracting third party companies, specialized in this field, to develop the software.

<u>Deadline - 2007-2008</u>

Performance evaluation criteria

Level of employment - level of employment of qualified personnel to achieve the

established objectives

Level of automation – number of automated tax procedures

IV. RISKS THAT MAY AFFECT THE LEVEL OF ACHIEVEMENT OF THE STRATEGIC PLAN OBJECTIVES

As part of the achievement of the strategic management system, STS identified the major risks that hinder the implementation of the Strategic Plan:

IDENTIFIED RISKS

MITIGATION FACTORS

IDENTIFIED KISKS	MITIGATION FACTORS
• Lack of financing/technical support or its limitation	Prompt communication with development partners regarding the problems of the Strategic Plan and proposals of technical support
• Level of environment preparation (taxpayers, STS personnel, civil society, etc.) for the changes suggested by the Strategic Plan	Organizing and carrying out mass information campaigns.
• Loss of qualified, trained and specialized personnel	Developing more performing human resources management processes. Establishing a close relationship between compensation and reward mechanisms, associates capacities and results.
• Lack of continued counseling	In the provision of counseling services, we will focus on continued short-term counseling provided by professionals.
Lack of political support and management	Political and managerial support of the strategic plan. Continuously informing the Government about the achievements resulting from the implementation of the Strategic Plan.

V. IMPLEMENTATION METHOD OF THE STRATEGIC PLAN

The State Tax Service intends to implement the Strategic Plan as follows:

- Publishing the strategic plan and information about the implementation process on the STS web page, media publishing that provides information to the civil society;
- creating work groups that implement the reforms included in the Strategic Plan;
- creating a supervision committee that would include representatives of the Ministry of Finance, Ministry of Economy and Commerce, and commercial and business associations, managed by the Manager of MSTI, which would monitor the progress of the reforms, the effect of the actions taken and would solve the problems related to major obstacles faced in the implementation process of the plan;
- requesting the support of the development partners for implementation of key elements of the Strategic Plan.

VI. COSTS

Estimated costs required for the implementation of the Development Strategic Plan of STS

Structural and functional consolidation		Human resources		Taxpayers		Administr	Large Taxpayers Administration Department ear 2006	
Year 2006	-	Year 2006	545,0	Year 2006	200,0	Year 2006	-	
Year 2007	22000,0	Year 2007	651,8	Year 2007	85,0	Year 2007	_	
Year 2008	22820,0	Year 2008	561,8	Year 2008	140,0	Year 2008		
Year 2009	7820,0	Year 2009	436,8	Year 2009	110,0	Year 2009	-	
Year 2010	2620,0	Year 2010	436,8	Year 2010	190,0	Year 2010	_	
TOTAL	55260,0	TOTAL	2632,2	TOTAL	725.0	TOTAL	_	

Total amount for financing			IT	Fiscal Procedures		
5545,0	Year 2006	4800,0	Year 2006	-	Year 2006	
68416,8	Year 2007	12800,0	Year 2007	32880,0	Year 2007	
32231,8	Year 2008	6560,0	Year 2008	2150,0	Year 2008	
14566,8	Year 2009	4050,0	Year 2009	2150,0	Year 2009	
11696,8	Year 2010	8450,0	Year 2010	-	Year 2010	
132457,2	TOTAL	36660,0	TOTAL	37180,0	TOTAL	

Abbreviations and Acronyms

STS – State Tax Service
MSTI – Main State Tax Inspectorate
STI – state tax inspectorates
MTMB – Major Taxpayer Management Branch
VAT – Value Added Tax
IT – Information Technology
F – farms